3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

P31

I

The Austrian Problem

THE popular conception of a Europe divided by the Iron Curtain makes no allowance for the position of Austria. On one side of the curtain are East Germany and the Soviet satellite States, with Berlin heroically maintaining its insularity and faith in the future. On the other side are the West European countries, including Yugoslavia, with Albania as a queer but harmless anomaly left isolated on the Adriatic by Tito's quarrel with Russia. Austria under Four-Power occupation, yet with a Federal Government of its own, does not fit into this over-simplified pattern. The Russian zone of Austria is not behind the Iron Curtain in the same sense as East Germany, but it cannot be included in Western Europe.

This aspect of the Austrian question is bound up with the conflict between Russia and the West. It is a post-War development and will become clear as the story of post-War Austria is told. The main problem presented by Austria in 1945 is more fundamental and can be understood only in the light of the country's history between the two World Wars.

When the Habsburg Empire disintegrated in the autumn of 1918, the bulk of its territory and population was taken over by the so-called Succession States. All that were left to form the new Austrian Republic were about seven million German-speaking Austrians and a group of provinces extending from Hungary to Switzerland without national or administrative cohesion. For some months it was doubtful if an Austria would survive at all. From the economic and political points of view there were strong reasons why it should not.

Economically the new State was an irrational fragment which would have the greatest difficulty in paying its way. In area it was little more than an eighth the size of the old Empire.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

and indirect advantages for Austria: it has saved her the expense of maintaining defence forces; it has brought home forcibly to the United States the extent of her economic needs, and it has produced political solidarity in face of the emergency. Yet Marshall Aid would in some measure have been forthcoming, and the lessons of the Coalition to some extent have been learned, had a treaty been signed in 1946. On the whole, the disadvantages of the occupation have greatly outweighed the advantages. Austria has carried the burden of occupation costs, and she has had to endure the wholesale exploitation of her oil and industry by the Russians. Above all, a liberty-loving people have had to submit to supervision and interference with their domestic affairs. The presence of the Western Allies has been appreciated in some degree as an antidote to the Russians. But even the most friendly disposed of foreigners can never really be welcome as members of an occupying force. Hotels and dwellings have been requisitioned by all four occupying Powers. Americans as well as Russians have caused trouble for the Vienna police by their propaganda. In the summer of 1952, after the United States had been strongly advocating Austrian independence for six years, considerable resentment was felt at American opposition to the Austrian Government's proposed political amnesty laws. It was quite reasonably considered that this attitude constituted unwarrantable interference in Austria's internal affairs.

As Austria was only involved in the War as part of Hitler's Empire, the treaty that is to restore her independence has, by general consent, always been described as the State Treaty, not the Peace Treaty. That is to say, no Peace Treaty is needed between the four occupying Powers and Austria, because a state of war has never existed between them. What is required is a State Treaty laying down the terms on which an independent Austrian State is to be reconstituted after its forcible extinction by Hitler.

The story of the negotiations to bring about such a treaty extends over the period from 1946 to the present time. It has been confused by the complexity of Russia's obstructive

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 technique, which successfully prevented a treaty from being signed, in spite of substantial concessions by the Western Allies, but was accompanied by constant protestations of goodwill as well as bitter accusations against Austria and the West. As a result, the negotiators had met 258 times by the spring of 1951 and were still as far as ever from their declared objective. For the sake of clarity, the negotiations will be considered in four rather arbitrarily defined phases. But before this is done it will be relevant to consider the Austrian part in the discussions leading up to the Italian Peace Treaty.

After the First World War, Italy was given the South Tyrol, including over 200,000 German-speaking inhabitants, as a reward for joining the alliance against Germany. The Germans in the province constituted a large majority of the total population, and its transference from Austria to Italy was therefore a flagrant breach of the principle of self-determination. The very principle which had led to the dismemberment of the Austro-Hungarian Empire should have prevented the separation of South Tyrol from the new Austrian Republic.

During the Second World War Italy had been Hitler's ally, while Austria had been a victim of German aggression. When the War ended, therefore, Austrians felt that the moment had arrived for an act of great international injustice to be rectified, and impressive all-party demonstrations for the return of South Tyrol were held in Vienna and every provincial capital. Austrian feelings were shared by many informed persons in other countries, including a number of enlightened and liberal-minded Italians. Sympathy for Austria's point of view was sufficiently strong for her Foreign Minister to be invited in August 1946 to present his country's case at the Paris Conference which was meeting to consider the Italian Peace Treaty. In spite of the inherent strength of the case, which was appreciated particularly by the French and British representatives, the conference decided against Austria, and South Tyrol remained Italian. Italy had a large Communist minority, and neither Russia nor the Western Powers were prepared to risk driving her into the opposite camp by alienating her sym-

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

pathy. However, Austria and Italy were encouraged to make a separate agreement on South Tyrol, which was incorporated in the Italian Peace Treaty.

By the terms of the agreement that was reached on the 5th of September 1946 the equal rights before the law of the German-speaking and Italian-speaking peoples of the region were guaranteed, 'in order to protect the nationality and cultural and economic development of the German population'. The German-speaking inhabitants were also ensured education in their mother tongue and equality of treatment in appointment to public offices and in the use of their language in the public administration. The region was to be given a degree of legislative and administrative autonomy, and the discriminatory measures taken by Mussolini and Hitler against the German inhabitants were to be reversed. In addition, the two countries agreed to take steps to facilitate travel and intercourse between Italian South Tyrol, on the one hand, and Austrian North and East Tyrol, on the other.

Dr. Gruber has been criticized by some of his countrymen for acquiescing in the loss of South Tyrol and for making the Paris Agreement, without the whole matter being referred to the Austrian Parliament. But Austria was in a weak bargaining position in relation to the Powers represented at Paris, and he and the Austrian Government were probably wise to take the opportunity offered to ensure that a favourable settlement of the South Tyrol problem received international sanction by incorporation in the Italian Peace Treaty. On the Austrian side there has been some dissatisfaction with the political, as opposed to the cultural and economic results of the Paris Agreement, but on the whole it has worked out fairly well. Certainly the position of the German-speaking inhabitants is very much more satisfactory than it was at any time between the Wars, and there is hope for the future.

The discussions that resulted in the South Tyrol settlement took place during the negotiations leading to the Italian Peace Treaty and before the Austrian State Treaty had been placed on the Allied agenda. Nevertheless, the problem concerned

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 Austria quite as much as Italy, and the Paris Agreement was really an anticipation, in one field, of the Austrian Treaty.

The first phase in the negotiations for an Austrian State Treaty lasted until December 1947. It was characterized by delay and deadlock, and when it came to an end no real progress had been made, apart from the definition and clarification of differences. The diplomatic background to this period, which largely explains its negative character, was Russian disappointment with the result of the 1945 Austrian elections and Russian success in strengthening its hold on Central and Eastern Europe.

In May 1946, at a meeting of the Allied Foreign Ministers in Paris, the United Kingdom and the United States representatives declared themselves to be in favour of the immediate discussion of an Austrian treaty which would make it possible to bring an end to the occupation. Soviet Russia, however, was unwilling to proceed with the treaty until other outstanding matters had been settled. The following October Mr. Ernest Bevin said in the House of Commons that the British Government was disappointed that Soviet opposition was delaying the Austrian treaty, and would continue to take every possible opportunity to press for an early discussion of the subject. At the Foreign Ministers' Conference in December 1946 it was finally agreed that the Austrian treaty should be included on the agenda of the Moscow Conference that was to be held in March 1947 and that meanwhile preparatory work should be carried out by the Foreign Ministers' Deputies, who were to meet in London during January and February.

During the London meetings a draft treaty was prepared consisting of a preamble and fifty-nine articles, on about half of which there was unanimous agreement. On certain vital issues, however, there were wide differences of opinion, and these held up progress during the remainder of the year. The main problems were the Yugoslav claims to reparations and frontier revision and the question of German assets.

Yugoslavia claimed from Austria as reparations $150 million and all Austrian property in Yugoslavia. She also demanded

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

the cession of nearly 1,000 square miles of Southern Carinthia, including Klagenfurt, the provincial capital, and the important town of Villach, together with smaller areas of Southern Styria. The territorial claim was originally based on ethnic considerations, although a plebiscite held after the First World War had shown the area to be overwhelmingly Austrian in race and sympathy. The ethnic argument was later dropped and frontier rectification demanded as a reward for Yugoslavia's contribution to the War. Yugoslav claims were formidable, chiefly because they received strong Russian support.

At the Potsdam Conference it had been decided that Austria should pay no reparations, but it had been agreed that Germany's external assets should be used as part of her reparation payments. Soviet Russia had been assigned the German assets in the Soviet occupied zone of Austria. Disputes arose, however, over the meaning of the term 'German assets', which the Potsdam Agreement had left undefined. The Western Powers considered that only such property, rights, and interests should be considered German assets as had belonged to the German State or German nationals before the *Anschluss* or had been acquired since then on fair terms without any compulsion. But, in addition to assets in these categories, the Russians took possession of the Austrian State property that had been taken over by the German Government in 1938 and many enterprises which the owners had given up against their will or which had, like most of the oil-fields, been developed by the Germans during their occupation. The Russians refused to discuss their actions in detail and were intransigent on the question of principle. During the whole course of the treaty negotiations no agreement was ever reached between the two sides as to what constituted 'German assets'.

The Moscow Conference, which met on the 10th of March 1947, ended in complete failure, so far as the Austrian negotiations were concerned, on the 24th of April. The small Austrian delegation, which had been invited to attend, estimated that it spent 716 out of its 720 hours in Moscow in the rooms of its hotel. The negotiations were then handed over to a special

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 Austrian Treaty Commission which was set up by the four Powers in Vienna. It met eighty-four times between May and October 1947, and made no progress on the points under dispute. In fact, the disagreement on the question of German assets was intensified.

By this time Austrian patience was wearing thin. Dr. Gruber, the most outspoken member of the Government, had already described the Moscow Conference as a flagrant violation of Austrian interests, a contradiction of the Allies' own arguments, and had declared that his Government saw no moral justification for prolonging the occupation. During the autumn a number of Austrian statesmen, perhaps emboldened by the independent line their country had taken over the Marshall Plan, made a number of forthright speeches demanding the restoration of Austrian independence and sovereignty. The Four Powers decided that the Austrian problem should be considered again by the Conference of Foreign Ministers that was to meet in London in December.

The London Conference marked the beginning of the second phase in the treaty negotiations which lasted until the end of 1949 and led to a considerable measure of apparent success. Progress was facilitated by a French plan to break the deadlock, by the breach between Yugoslavia and Soviet Russia, and by the Austrian Government's desire to have a treaty at almost any price, provided Austria's full political independence was guaranteed.

The French proposals submitted to the Foreign Ministers in December 1947 accepted the fact that no agreement could be reached on the definition of German assets. They suggested instead that Russian claims to German assets should be given up in return for compensation. Russia would receive a lump sum in dollars from the Austrian Government and certain rights respecting Austrian oil production and the property of the Danube Shipping Company. The French plan was supported by Great Britain and the United States, and Russia indicated that it might be acceptable as a basis for discussion.

The new proposals and Russian counter-proposals were

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

considered by the Foreign Ministers' Deputies who held meetings in London between February and May 1948. Some progress was made on the question of German assets, but in the end the negotiations were adjourned indefinitely, owing to Russia's continued support of Yugoslavia's territorial and financial claims against Austria.

At the request of the Austrian Government, the negotiations were resumed in February 1949, at first by the Deputies, and in May and June by the Foreign Ministers themselves. Further substantial progress was made, and on the 20th of June a statement was issued announcing the agreement of the Ministers on certain clauses of the treaty. It was also made known that the Deputies were to resume their work in order to reach a final agreement on the draft treaty as a whole not later than the 1st of September 1949.

The compromise decisions that were made during the Foreign Ministers' meetings in May and June really settled the main points of dispute between the two sides. Following Yugoslavia's expulsion from the Cominform in June 1948, relations between Marshall Tito and Soviet Russia deteriorated rapidly during the spring of 1949, and Russia withdrew her support for Yugoslav claims against Austria. The Four Powers agreed that Yugoslavia should be allowed to retain Austrian property on her territory and that the treaty should contain a clause requiring Austria to safeguard the rights of her Slovene and Croat minorities. As regards German assets, the Foreign Ministers agreed in detail on the compensation the Soviet Union was to receive in return for relinquishing her general claims. This settlement represented a compromise between the original French proposals and the Soviet counter-proposals. Austria was to pay the Soviet Union $150 million in convertible currency by quarterly instalments spread over six years. The Soviet Union was also to receive 60 per cent of Austrian oil production for a period of thirty years, 60 per cent of the oil prospecting rights for eight years, and the former property of the Austrian Danube Shipping Company in Hungary, Roumania, Bulgaria, and Eastern Austria.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

•728 Dr. Gruber had been assured repeatedly by Soviet spokesmen that the last obstacle to the conclusion of the State Treaty would be removed as soon as the Soviet claims regarding German assets were satisfied. During the summer of 1949, therefore, hopes were high in Austria and the West that the treaty would be signed before the end of the year. The terms that had been agreed on were onerous and had been approved by the Western Powers only because the Austrian Government had made clear that it was prepared, if necessary, to accept heavy economic burdens in return for political freedom. Austria would have great difficulty in making the regular dollar payments to the Soviet Union and could hardly do so without help from the United States. However, the alternative of continued servitude and uncontrolled economic exploitation by Russia was worse.

The Deputy Foreign Ministers were unable to complete their task in the time allotted, but talks continued during the autumn, and by December agreement had almost been reached. A new deadlock then developed. The Soviet representative insisted on the satisfaction of claims for compensation put forward by the Soviet Union in respect of services and relief supplies furnished to Austria since the end of the War. This ended the hopeful and constructive phase of the negotiations.

The third phase lasted from December 1949 until the beginning of 1952. Throughout this period it became progressively clear that the Soviet Union had no intention of reaching an agreement, and in fact was determined, on one pretext or another, to prevent the signature of a State Treaty.

In the course of 1950 a whole series of Four-Power meetings took place at which the Austrian Treaty was discussed but no advance made towards the objective. To the claims for compensation for post-liberation services and supplies the Soviet representatives added accusations against Austria for violating the principles of denazification and demilitarization, and demands that discussions on the wholly irrelevant problem of Trieste should precede further consideration of the treaty.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

The various points raised by the Russian delegates had two things in common: they were intended to prevent progress, and they did not reveal the real reasons for Soviet obstruction. On the only occasion during 1951 when the representatives of the Four Powers dealt with Austria they decided to adjourn the discussions indefinitely.

The motives of Russia's obstructive tactics are a matter for conjecture. The draft Austrian Treaty provided for the withdrawal of all occupying forces within three months of ratification. The Peace Treaties with Roumania and Hungary lay down that Soviet troops in the two countries shall be withdrawn once there is no further need of them to guard the lines of communication with the army of occupation in Austria. It has therefore been suggested that Russia's main motive in delaying the Austrian Treaty is the desire to maintain military control of Hungary and Roumania. But, as Soviet political influence in those countries is so strong, this explanation is not entirely satisfactory. A more powerful reason for the Soviet attitude is probably the realization that once the occupation of Austria has come to an end Western influence in the country will be predominant. Russia wishes to maintain her present position by the most obvious means. Vienna still has great prestige in the Succession States, who have looked to her traditionally as a cultural and intellectual centre, and Russia's propaganda in Eastern Europe will suffer a setback if Vienna can no longer be represented as within its sphere of influence. It should be remembered that Soviet obstruction of the treaty negotiations was revived shortly after the Austrian elections of October 1949 had confirmed the crushing defeats suffered by the Communists in 1945. In addition, the occupation is a source of steady and considerable economic advantage to the Soviet Union.

The fourth phase of the treaty negotiations began in January 1952, and has not yet come to an end. It opened with a determined effort on the part of Britain, France, and the United States to get things going again. Both Austria and the Western Powers set out to make quite clear where the responsibility for

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 past failures lay and to mobilize world opinion in support of the Austrian case.

In September 1951, in a communiqué issued from Washington, the Foreign Ministers of the three Western Powers had announced their decision to make a new and resolute effort 'to fulfil the long-overdue pledge to the Austrian people'. At the meeting of the United Nations Assembly in November both Mr. Acheson and Mr. Eden had referred to the urgency of the Austrian problem. Action was finally taken when invitations were issued to a meeting of the Austrian Treaty Deputies to be held in London in January 1952. The Soviet Government made its participation dependent on Western willingness to discuss Trieste and alleged Austrian remilitarization, and the Soviet representative did not attend. The Western Powers therefore proceeded to draw up new proposals on their own.

The fresh proposals were forwarded to Moscow on the 13th of March 1952. They consisted of a new and abbreviated draft treaty accompanied by identical explanatory notes from the three Western Powers. The notes recalled that Austria had not yet received the full independence promised her by the Moscow Declaration nearly nine years before; stated that the responsibility for this state of affairs lay 'squarely on the Soviet Government' and that 'a heavy and unnecessary burden' had in consequence been placed on the Austrian people, and recommended the Soviet Government to give careful consideration to the new draft treaty, which contained the essentials required to re-establish Austrian independence. The draft treaty itself, in eight short articles, re-established Austria as a sovereign, independent, and democratic State, with the frontiers of January 1938, declared that no reparations should be exacted from her, and provided for the evacuation of Austria by the Allied forces within ninety days of the treaty coming into force and for the restoration to Austria by the Allies of all property 'of whatever description held or claimed by them as German assets or as war booty in Austria'.

The abbreviated draft treaty was significant for two main

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

reasons. Its brevity and clarity left no doubt that its sole purpose was to restore the independence of Austria, in accordance with the terms of the Moscow Declaration: any Power that rejected it would have great difficulty in persuading public opinion inside and outside of Austria that it was really in favour of Austrian freedom. Secondly, the omission of clauses in the previous draft treaty relating to German assets implied that the Soviet Union, after three years of obstruction and continued economic exploitation of Eastern Austria, had forfeited its right to the very favourable terms previously conceded by the Western Powers.

Meanwhile the Austrian Government and people made their own attitude quite clear. At the opening of the Vienna Autumn Fair in 1951, Dr. Figl, in a typical phrase, described occupied Austria as standing 'in the centre of Europe as a sort of fossilized monument to the Second World War'. In February 1952 President Körner gave a dinner-party in Vienna to the Governors of all the Austrian provinces as a demonstration of Austrian unity and solidarity. The President spoke of the way in which the Austrian provinces had grown together organically during the previous six years. In his reply on behalf of the provinces, Dr. Gleissner of Upper Austria said that in future there must be no mention of Eastern Austria and Western Austria, but only of a single unified State. 'The zonal frontiers cut through the landscape,' he added, 'but they do not cut through our hearts.' Finally, on the 2nd of April, after a series of speeches protesting against the continuance of the occupation, the Austrian National Assembly passed the following resolution with the unanimous support of all parties except the Communists:—

'The National Assembly voices the deep-felt indignation of the Austrian people and protests anew against the continuation, in violation of international law, of the occupation of Austria by alien armies; against the maintenance of military jurisdiction in all zones of occupation; against the spoliation of economic resources and against the persistent interference of the Occupation Powers in the internal affairs of Austria. The

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 National Assembly vehemently protests against the unlawful activities of Allied business enterprises within the Republic of Austria, which operate with a disregard for (Austrian) economic laws and which fail to pay Austrian taxes.'

This national demonstration was followed by the passing of similar resolutions by all the provincial legislatures, which met in extraordinary sessions to express the Austrian people's desire for freedom.

The visits of Dr. Figl to Britain, the United States, and France in May 1952, and of Mr. Acheson and Mr. Eden to Vienna in June and September, were of significance in connexion with the treaty negotiations. The Chancellor obtained assurances from the three Western Foreign Ministers that Austria would not be forgotten during future international conferences, and Mr. Acheson and Mr. Eden, while they were in Vienna, expressed the deep concern of their Governments for the restoration of Austrian independence. Mr. Eden pointed out that he had himself signed the Moscow Declaration in 1943 and that it was the British Government which had raised the Austrian question at Moscow.

The Western Powers received no reply for five months from the Soviet Government to their proposals of the 13th of March, in spite of a reminder sent off on the 9th of May. Finally, after a further reminder, an answer was despatched on the 14th of August in which the abbreviated treaty was criticized because it did not 'guarantee democratic rights and freedoms to the Austrian people'. This was followed on the 29th of August by a violent attack on the Austrian Government from the Soviet High Commissioner in the Allied Council in Vienna. The Austrian constitution and administration were criticized as anti-democratic, bureaucratic, and reactionary, and the Austrian Government was accused of retaining 'hundreds of reactionary laws' introduced by the Hitler régime. There was no serious foundation for these accusations, which had obviously been thought out as a new method of playing for time. They were refuted in detail by the Austrian Government on the 11th of September. In reply

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 to the Soviet note of the 14th of August, the Western Powers stated that in their opinion 'democratic rights and freedoms' were guaranteed by the Austrian constitution, but, to meet the Soviet objection, they were prepared to incorporate in the abbreviated draft treaty guarantees taken from the earlier draft treaty, which the Soviet Union had already approved. The Soviet Government was also invited to send a representative to a meeting in London on the 29th of September, at which it was proposed to resume consideration of the Austrian Treaty. No Soviet representative appeared, and in its answering note of the 27th of September the Soviet Government, in addition to dragging in such matters as denazification and Trieste, which had bedevilled previous negotiations, showed clearly its concern about the omission from the abbreviated treaty of the economic concessions made previously in its favour and its desire to return to the earlier draft.

The Austrian Government had meanwhile been proceeding with a plan of its own to bring its case before the United Nations. The idea went back as far as the summer of 1946, when, one month after the signature of the New Control Agreement, the Austrian Parliament had adopted unanimously a resolution asking permission to send a delegation to acquaint the United Nations with the position of the Austrian people. Following the stagnation of the treaty negotiations in 1950 and 1951, the plan was revived on a bigger scale, and during the first half of 1952 references by Austrian statesmen to a possible appeal to the United Nations became frequent. At the end of July the Austrian Government sent a well-documented memorandum to all countries that were members of the United Nations calling their attention to the injustice that was being done to Austria and asking them to use their good offices to persuade the four occupying Powers to evacuate Austria and restore its independence. At the same time Dr. Gruber was visiting Brazil, and a few weeks later it was announced that Brazil had decided to bring the question of the Austrian State Treaty before the General Assembly of the United Nations.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

728 The Austrian case was submitted to the Political Committee of the General Assembly on the 17th of December 1952. The resolution introduced by the Brazilian delegate called upon the Governments concerned to renew the efforts that were so urgently needed to come to an agreement on the terms of an Austrian Treaty so that the occupation of Austria could be brought to an end and her full sovereignty restored. After a series of warm speeches in Austria's favour and none against her, forty-eight countries voted for the resolution in the Political Committee and later in the General Assembly itself, while no votes were cast in opposition.

The result was a considerable moral victory for Austria and represented a mobilization of world opinion in her support. The appeal to the United Nations was opposed by some friends of Austria as untimely and likely to prove ineffective. But, though no immediate practical results could be expected, such an impressive demonstration of sympathetic impatience was unquestionably preferable to silent acquiescence in the continued occupation.

It seems unlikely that agreement will be reached on an Austrian State Treaty until there is some kind of *détente* between Russia and the West. But Austria is a region where the two sides could come to an agreement without sacrificing any major interest or principle. It may be, therefore, that the Austrian genius for conciliation, which has always been favoured by geography, has its greatest victory ahead.

II. ECONOMIC-POLITICAL ISSUES: ANALYSIS AND SOLUTION

The first part of this survey was intended 121
to acquaint the reader with a review of opinions, thoughts and trends of the scientific economic works and to furnish him with a cross-section of past and present publications which influence the intellectual profile of contemporary Austria since 1945. The second part shall acquaint the reader with Austria's many economic problems and the important aspects of Austrian economic policy, thus pointing up the expert's ideas and considerations which are at the basis of measures enacted. This will make it possible to get an over-all view of the reciprocal action between the ERP and the various economic sectors within the framework of a national economic balance.

A. The Political and Economic Reestablishment of the Second Austrian Republic. Problems of Austrian Reconstruction.

1. The Political and Economic Reestablishment of the Second Austrian Republic. 648 728

During the Second World War, particularly during the repeated meetings of leading political and military leaders, principles were laid down upon which the postwar political and economic reconstruction of the world should be based. The first of the pertinent documents was the eight-point declaration of the Atlantic Charter of August 14, 1941, by President Roosevelt and Prime Minister Churchill. Both expressed the desire to reinstate sovereign rights and autonomous government in all countries that had become victims of agression. The second basic document of this type was President Roosevelt's New Year's Message (January 6, 1942), concerning the Declaration of the United Nations at Washington, D. C., on January 1, 1942, based upon the principles of the Atlantic Charter. However, of importance to the constitutional reestablishment of Austria, was to be the solemn declaration of the governments of the United Kingdom, the Soviet Union and the United States during the Moscow Conference of Foreign Ministers (October, 1943), providing that one of the aims of this reorientation was that Austria, the first free country to become a victim of Hitler's aggression, must be freed from German rule. The great powers considered the forced annexation of Austria by Germany

648 728 on March 15, 1938, as null and void and further expressed the desire to see a free and reestablished Austria. This accomplishment would enable the Austrian people, as well as neighboring nations confronted with similar problems, to find that political and economic security which is the only foundation of a lasting peace.

The powers augmented this declaration at the Conference of Yalta (Crimea conference of February 4 - 11, 1945) by agreeing to promulgate the reinstatement of sovereign rights as well as self-government for all peoples deprived of such rights by aggressor nations. To implement the practical exercise of these rights, liberated European nations should be assisted in the amelioration of want and need as well as in the creation of a (provisional) governmental authority in which all democratic population elements were to be represented on a broad basis, and which should in turn be required to establish, as soon as possible, a government, chosen by free elections, acting in accordance to the will of the people.

642 727 Based upon the repeated declarations of the powers the chairmen of the three political parties proclaimed the Second Republic of Austria on April 27, 1945, immediately after cessation of hostilities in Austria. In accordance with Article I of this proclamation the "democratic Republic of Austria" was reestablished and to be organized similarly to the constitution of 1920. Article II provided that the annexation forced upon the Austrian people in 1938 was to be considered as null and void. Therewith Austria joined again the family of European nations.

The first legislative acts of the provisional government concerned the framework of the constitution, the reestablishment of the legal system and the appointment of authorities. On the strength of the "Verfassungsüberleitungsgesetz" (i.e., the law to reestablish Austrian enactments for German ones), Austria was fundamentally reestablished as a democratic republic, reverting to the provisions of the federal constituion of 1920, as amended in 1929. Simultaneously a provisional constitution was agreed upon which regulated the government. In essential stipulations it conformed with the constitutional law of 1929. The "Behördenüberleitungsgesetz" (i.e., the law to reestablish Austrian authorities) was enacted to establish a new Austrian authoritative apparatus. It stipulated the definitive substitution of administrative and judicial instruments of the German Reich by

those of Austria as of July 20, 1945. This was followed by the "Beamtenüberleitungs- und Staatsbürgerschaftsüberleitungsgesetz" (i.e., a law re-establishing the Austrian status of employees and citizens), the reorganization of municipal law as well as the "Nationalsozialistengesetz," known as NS, the law prohibiting national-socialism (Verbotsgesetz 1945 and the Wirtschaftssäuberungsgesetz). 642 727

Following the arrangement agreed upon by the powers, Austria was divided into four occupation zones and their divisioning settled during August, 1945. The supreme occupation and control authority is the Allied Commission for Austria in Vienna which retained a number of sovereign rights, but which little by little after 1946 transferred substantial shares of authority to the Austrian Federal Government. 727 631 642

At the Potsdam Conference (protocol of August 2, 1945) the powers, examining the question of extending the executive power of the provisional government (Dr. Renner) which up to then covered only the Russian occupation zone, recommended the extension of this power to cover all Austria. 728

In the federal provinces, meanwhile, provisional provincial governments were established and the federal provinces constituted, permitting the functioning of a provincial legislature within the jurisdiction of the constitution of 1929. At the same time the reestablishement of the Verfassungs- und Verwaltungsgerichtshof (i.e., a constitutional court) was prepared. On October 20, 1945, the Allied Commission for Austria finally authorized the provisional federal government, to enact laws for all of Austria (which, however, first had to be submitted to the Allied Commission for approval). 631

The elections of November 25, 1945, which had been arranged by the election proclamation of the provisional government, brought about the legalization of the endeavors of the provisional government, which resigned on November 28, 1945. 666 642

1945 Election: Tally of Votes and Seats

ÖVP (Austrian Peoples Party)	1,588,444 votes	85 seats	666
SPÖ (Socialist Party)	1,428,441 votes	76 seats	646
KPÖ (Communist Party)	174,387 votes	4 seats	
	3,191,272 votes	165 seats	

766 of the crypt, Matthias and Anna, are simple and humble, plain four-sided leaden caskets. The coffins stand side by side in long rows, bearing coats of arms, or the heads of lions beside the metal carrying rings.

Surprisingly magnificent sarcophagi stand beside them. Baroque, with its determination that one should live with every atom of one's force—and so die—has descended into the realm of the dead. Eagles about to soar in flight and couchant lions support massive coffins. Heads of veiled women, their faces wrung with grief, ornament the corners.

Maria Theresia and Franz von Lothringen! This monumental sarcophagus is a memorial of love on which the Empress and her husband are artistically depicted facing one another in lifelike fashion. At their heads waits an angel with a trumpet to arouse them on Judgment Day. Eleven of her children are grouped around the Empress, Joseph II in a simple coffin of copper.

Now Francis Joseph, after doing his duty like a soldier up to his last breath, has joined the ranks of his ancestors.

● 728 In October 1918 came the collapse of the Central Powers. English officers, standing in front of the Hotel Imperial, held in their hands newspapers with the headlines: "The War is Over."

For Austria it was much more than a war which was over. If the essential Austria had been no more than what was then laid to rest under the insignia of the Double Eagle, the country would then—in 1918—have certainly come to an end.

Instead, there occurred something entirely unexpected, something unique. The little Austria which remained after the destruction of the Monarchy, a severely mutilated torso to which in widespread circles in Europe it was sought to deny not only all rights, but even its ability to exist, this fragment of the heart of a continent defied the blows of fate and arose again, re-establishing its sovereignty as built up on and supported by the labours and solidarity of its workmen, peasants, and middle classes.

Eternal, indestructible, resurrected Austria!

728

When the Austro-Hungarian Monarchy broke up at the end of the first World War, this collapse meant more than the tragic end of a state or empire. In the heat of nationalistic fervour and in the enthusiasm generated by successful *Revanche* on the Rhine it was not at first realised what damage had been done to the whole European concept, and thus to every country of the Continent without exception through the destruction of the Austrian economic unit. The effect was felt far beyond the limits of the little country on the Danube.

Austria, an important keystone in the building of the European balance of power, had dropped out. The intoxication of victory hindered the conclusion of a constructive peace. The stabilising balance of two major states was lacking. President Wilson, it is true, had laid down his 14 points, but America soon returned to her old policy of isolation. Through the October Revolution Russia was for the time being deprived of all voice in foreign affairs and thus peace was in fact dictated solely by Clemenceau, the "Tiger", the Succession States formerly parts of the Hapsburg Monarchy frantically applauding his extreme chauvinism at the very one-sided peace congress. An attempt at extreme severity in the case of Germany resulted in half measures. Aiming at the exaction of a maximum of reparations, the dictated peace in this very way enabled a gigantic industrial development to take place on the Ruhr, thus involuntarily re-establishing its potential for the manufacture of armaments.

The German delegate left the gloves which he had worn in signing the peace treaty lying ostentatiously on the conference table—the challenge to a second world war!

October 27th, 1918. Appointment of the last Imperial Government under Lammasch.

October 28th, 1918. Proclamation of the Czechoslovak State.

October 30th, 1918. State Council set up under Chancellor Renner. All-Party Coalition.

November 3rd, 1918. Proclamation of the Polish Republic.

November 11th, 1918. Emperor Karl renounces all claim to exercise ruling powers in Austria.

November 12th, 1918. Proclamation of the Republic in Austria.

November 16th, 1918. Proclamation of the Republic in Hungary.

December 1st, 1918. Proclamation of the Kingdom of the Serbs, Croats and Slovenes.

February 16th, 1919. Election of a Constituent National Assembly.

April 2nd, 1919. The Hapsburgs banished and Titles of Nobility abolished.

September 10th, 1919. Treaty of Saint-Germain signed.

October 1st, 1920. The National Assembly ratifies the new Constitution.

October 10th, 1920. Plebiscite in Carinthian frontier districts goes in favour of Austria.

October 17th, 1920. Election of the First Austrian Parliament.

October 22nd, 1920. The Social-Democrats leave the Coalition Government.

December 4th, 1921. The Burgenland is restored to Austria.

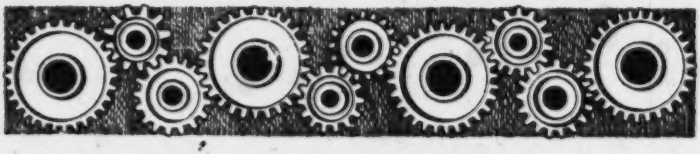
April 1st, 1922. The Death of Emperor Karl I.

August 20th to 27th, 1922. Chancellor Seipel visits Prague, Berlin and Verona.

September 27th, 1922. The League of Nations approves the plan for Austrian financial reconstruction.

March 2nd, 1925. The Krone is replaced by the Austrian Schilling.

June 30th, 1926. End of financial control by the League of Nations.



THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 439 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 433 458 The nadir of those days was reached with the signing of the Treaty of Saint-Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 457 After difficult but very skilfully conducted inter-state negotiations, the governments of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the 652 Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning

CHANCELLOR RAAB OF AUSTRIA

more than he takes part in the lively talk. 643

Ten years have passed since the Allies, in a solemn Moscow declaration, proclaimed restoration of Austria's sovereign independence as one of their avowed war aims. Today Austria's position as a "liberated" victim of aggression is in many ways worse than that of the aggressor. 728●

Chancellor Raab has taken the activation of his country's foreign policy personally in hand. Reduced to essentials his argument comes to this: Austria is not yet free only because the Allies fell out among themselves, and that is certainly not Austria's fault. After 99% agreement, the state treaty is being held up only as a Russian cold-war tactic (though, he remarked, "the cold war in Europe has never been quite ice-cold in Austria"). But why not withdraw, meanwhile, the occupation armies? Democratic Austria has proved that it can fully maintain law and order by itself, and there would still be the Allied high commissioners in Vienna to watch—no foreign armies are necessary for that. 643 648

Since last summer, relations with the Russians have greatly improved, though nobody can say whether as a reversal from Stalin policy or merely as political tactics. All the same, the belated Russian concessions do not go as far yet as those made much earlier by the Western powers. The chancellor has reacted

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

CHAPTER I

INTRODUCTION

THE IMPORTANCE OF AUSTRIA.

128 WHEN the Foreign Secretaries of Britain, the Soviet Union, and the United States met in Moscow in November, 1943, they issued a declaration stating that Austria, the first victim of German aggression, was to regain her independence at the end of the war; that this independence was to "open the way for the Austrian peoples themselves, as well as those neighbouring states which will be faced with similar problems, to find that political and economic security which is the only basis for lasting peace"; and that Austria's position would depend on the part the Austrians themselves play in their liberation.

131 721 This declaration was testimony to the importance which is attached to Austria's independence from the point of view of European and world peace. A glance at the map reveals at once the central position which Austria occupies in the heart of Europe. Her frontiers border on six other countries; her capital, Vienna, lies at the junction of Europe's main east-west and south-north arteries; while the Danube is a natural gateway to the Balkans. Just as the collaboration of the Habsburgs was essential to the realization of Emperor Wilhelm's Berlin-Bagdad dreams in 1914, so the occupation of Austria in 1938 was the first prerequisite for Hitler's attacks on Czechoslovakia, Poland, the Balkans, and the Soviet Union. A prosperous and independent Austria, fully co-operating with her

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Fifth Column was a powerful weapon in Germany's arsenal for her attack on Austria's independence.

AFTER THE ANNEXATION

The economic implications of the occupation of Austria were as little appreciated at the time as its political and strategic significance. In fact, Germany's war potential was greatly strengthened as a result. Austria's iron ore, magnesite, timber, electric power, etc., afforded valuable relief to Germany's war industry which was beginning to run short of raw materials. Austria also provided a source of skilled manpower which could be harnessed to the growing efforts of the German war economy.

Moreover, the gold and foreign exchange reserves found in the Austrian National Bank were of great immediate importance in helping Germany to build up emergency stocks for the coming war. Heavily indebted to her clearing partners, Germany had found it increasingly difficult to obtain foreign exchange for even the most essential raw material imports. The gold reserve of the Reichsbank had fallen to the extremely low level of RM. 76 million. They were now able to lay their hands on a gold reserve of more than 420 million schillings, or roughly RM. 200 million. Moreover, Austria had at that time some 200 million schillings of clearing balances to her credit (mainly from Germany and south-eastern Europe). Thus Germany was, at one stroke, rid of the problem of paying Austria and was able, with the help of Austria's claims, to settle her long-standing debts in the Balkans.

Finally, the occupation of Austria enabled Germany to outflank Czechoslovakia's strategic defences, and opened the road towards the east. The economic encirclement of eastern Europe was also complete. The Balkan countries had become dangerously dependent on trade with

AUSTRIA'S ECONOMIC DEVELOPMENT

728 Germany which had swallowed up one of their important customers and suppliers—Austria had up till then occupied the third or fourth place in the foreign trade of most of these countries. Politically and economically Germany had become the complete master of the whole area.

471 For Austria, of course, the occupation meant far more than a dangerous shift in Europe's economic balance. Her economy ceased to exist as a separate entity; within a very short time it was completely absorbed into Germany's war economy and her "New Order".[5]

The Germans were able at once to lay their hands on all Austrian State property. The railways were incorporated into the German railway system, the State forests taken over by the German State. The State monopoly in salt was given to the Deutsche Bank, and the tobacco monopoly taken over by a private German company. Far more important, however, were the shares of the Credit-Anstalt which were owned, at that time, by the Austrian Government. After the reorganization of the Credit-Anstalt in 1931, 49 per cent of its shares were taken over by the Government. These, together with some others, were now transferred to the Deutsche Bank. Since at the same time the only other important bank, the Zentraleuropäische Länderbank, came under the control of the Dresdner Bank, practically the whole of Austria's banking and insurance business had passed into German hands.

471 It must be borne in mind, in this connection, that the Central-European banks held a key position in the industrial life of their countries. It has been estimated that the Credit-Anstalt controlled almost 90 per cent of Austria's industry and agriculture. Moreover, the Austrian banks and financial institutions still possessed considerable investments in the Balkan countries, particu-

[5] [CA p. 91. CATEGORY 11c -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

larly in banking, and in the textile, chemical, and food-processing industries.[7] All these controlling positions now passed into the hands of the German banks. Vienna became Germany's launching ramp for south-eastern Europe, and Austrian economic quislings greatly helped the Germans to advance their economic penetration of the Balkans.

But the indirect control of Austrian industry through the banking system was only a first step. Within a very short space of time all the more important Austrian firms passed either partly or wholly into German hands. This was achieved either by methods of outright robbery, as in the case of "aryanization" (the confiscation of Jewish property), or by exploiting the financial difficulties in which many firms had been landed as a result of the occupation and incorporation of Austria; or through a skilful handling of the financial control which had been gained in the first instance. In this way all important industrial enterprises were absorbed into the big German combines like the I.G.-Farben, Krupp, Henschel, Vereinigte Industrie—A.G., and particularly the Hermann-Goering Works, which acquired the control of the largest part of Austria's heavy and allied industries.[8] Altogether, it has been estimated, a share capital of about 380 to 400 million schillings (of industrial, commercial, and banking firms) passed into German hands. This compares with a sum of about 710 million schillings which was the total value of all shares admitted for quotation on the Vienna Stock Exchange in August, 1938.[9]

While the big Austrian firms were being subjected to German control a process of decline took place among the smaller firms. Many small business men were ruined by the policies of rationalization, concentration, and above all by the extension of war production at the cost of the

1 [Cf Carberry 116, p. 91-92 -- Analyst]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

typically Austrian high-quality consumer goods industries. Between 1938 and 1942, the number of business enterprises in Austria declined from about 21,300 to 16,300, while the corresponding number in Germany increased from 337,000 to 353,000 over the same period.

The changes were less spectacular in agriculture. But many of the large estates belonging to the Church and the monasteries as well as State-owned land came into German ownership. Farmers who were in difficulties were not assisted but bought out and German "hereditary farmers" (*Erbhofbauern*) were settled in Austria. At the same time the sons of Austrian peasants were sent to Poland, Russia, and even to Bohemia and Moravia in order to "colonize" these areas. However, the changes in property relations were of less importance in the sphere of agriculture than the extreme regimentation of production and the system of forced deliveries which reduced the peasants to a state of serfdom.

It is too early as yet to give an exact picture of the effects of seven years of German domination on Austria's economy. Some major results are, however, clearly discernible.

First, it is clear that the Germans completely changed the economic structure of Austria. Austria's economy was wholly adapted to suit the needs of the German war machine. And since Austria, like Czechoslovakia, was for a long time the safest place from air attack in Hitler's *Festung Europa* it became one of the most important centres for the production of armaments. Heavy industry was greatly expanded. In Linz alone the Hermann Goering concern erected 320 coke ovens and 6 blast furnaces. In 1943, it was estimated that about 25 per cent of Germany's war industries had been concentrated in Austria.

On the other hand, many of the specifically Austrian

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

industries producing high-quality goods such as electrical equipment, precision instruments, food products, leather goods, arts and crafts, the fashion industry, etc., were either completely ruined by the dearth of raw materials, or they lost their identity by being absorbed into some German concern. Many smaller firms with a high reputation had to close down, and their carefully built up personnel was drawn into the army or into the armament industries. A considerable effort will be required to restore these enterprises which are of great importance for Austria's exports, particularly in her trade with Britain and the United States.

In agriculture, too, the many promising developments before 1938 were brought to an end and production was devoted to the sole purpose of yielding as great a surplus for Germany as possible. In particular, the output of vegetables, staple foods and industrial crops was greatly stepped up.

While Austria's economic structure has been altered, total production was greatly increased. Between 1938 and 1944 steel output, for instance, was doubled; the production of aluminium rose from about 4,000 to 72,000 tons, and the generation of electricity increased from 2½ million kW.h. to almost 10 million kW.h.

The upward trend in war industries was accompanied by considerable shifts in the location of industry. In particular, the Linz-Wels-Steyr area in Austria was greatly expanded and converted into a huge centre of heavy industry. Motor roads and inland shipping facilities were also greatly extended.

These increases were achieved through a considerable reduction in the output of the consumer goods industries, by neglecting the replacement of worn-out machinery, by moving German capital equipment and German and

AUSTRIA'S ECONOMIC DEVELOPMENT

foreign labour to Austria,[10] and also by making much fuller use of Austria's resources than ever before. Indeed, the organization of a war economy has revealed the potential wealth of Austria—as of other countries—showing what could be achieved in peace time if only proper use were made of existing opportunities.

The increase in production, however, was also achieved by eating deeply into Austria's resources. In many cases it will take years before the damage can be repaired, if indeed it can be repaired at all. In the case of timber, for instance (an extremely important export commodity in Austria), a reckless policy of exploitation has undone many years' work of careful afforestation. The intensive cultivation of the soil and the lack of artificial fertilizers and of animal feeding-stuffs has had the most damaging effects on agriculture. Up to the middle of 1942 harvests and herds of livestock were maintained at the pre-war level; but the position has greatly deteriorated since then. 1943, in particular, was a bad year and large numbers of livestock had to be slaughtered.

The increase in the output of oil in Zistersdorf from about 30,000 tons in 1937 to something like 1 million tons (which is considerably more than Austria's total peace-time requirements) may, it is feared, have dangerously exhausted these valuable resources. Similarly, the rate of exploitation of the iron ore deposits reached an undesirably high level.[11]

Our provisional economic balance sheet would not be complete without remembering the tragic destruction of manpower: the thousands of Austrians killed in Hitler's war and the many brave men and women done to death in concentration camps and at the hands of the executioner.

[CR CATEGORY 11b, p. 92 — ANALYST]